

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



45TH DISTRICT AGRICULTURAL ASSOCIATION  
CALIFORNIA MID-WINTER FAIR & FIESTA  
IMPERIAL, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-044  
FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

45TH DISTRICT AGRICULTURAL ASSOCIATION  
CALIFORNIA MID-WINTER FAIR & FIESTA  
IMPERIAL, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

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AUDIT REPORT NUMBER

#08-044

45TH DISTRICT AGRICULTURAL ASSOCIATION  
CALIFORNIA MID-WINTER FAIR & FIESTA  
IMPERIAL, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Cherisse Alford, President  
Board of Directors  
45th DAA, California Mid-Winter Fair & Fiesta  
200 East Second Street  
Imperial, CA 92251--1815

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 45th District Agricultural Association (DAA), California Mid-Winter Fair, Imperial California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 45th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

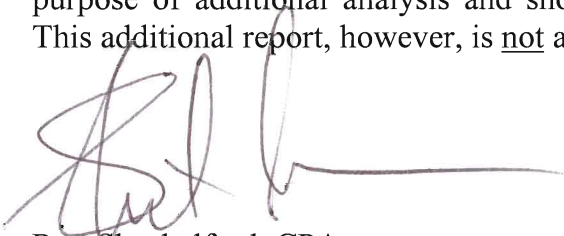
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 45th DAA, California Mid-Winter Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 45th DAA, California Mid-Winter Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-044 on the 45th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 45th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

  
For Ron Shackelford, CPA  
Chief, Audit Office

December 10, 2008

**45TH DISTRICT AGRICULTURAL ASSOCIATION  
CALIFORNIA MID-WINTER FAIR & FIESTA  
IMPERIAL, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION  
December 31, 2007 and 2006

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>			
Cash in Bank	112 - 119	\$ 367,627	\$ 211,339
Accounts Receivable, Net	131 - 133	26,105	6,298
Inventory	141	-	1,348
Deferred Charges	143	6,299	10,567
Equipment, Net	193	12,371	17,640
Leasehold Improvement, Net	194	548,111	548,198
<b>TOTAL ASSETS</b>		<b>960,513</b>	<b>795,390</b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities</b>			
Accounts Payable & Miscellaneous Liabilities	211-212	7,446	60,977
Payroll Taxes and Other Liabilities	221-226	3,350	34,334
Deferred Income	228	76,596	50,588
Guarantee Deposits	241	1,500	15,937
Compensated Absences Liability	245	54,965	37,864
<b>Total Liabilities</b>		<b>143,857</b>	<b>199,700</b>
<b>Net Resources</b>			
Reserve for Junior Livestock Auction	251	125,548	98,258
Net Resources - Operations	291	130,626	(68,406)
Net Resources - Capital Assets	291.1	560,482	565,838
<b>Total Net Resources Available</b>		<b>816,656</b>	<b>595,690</b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b>\$ 960,513</b>	<b>\$ 795,390</b>

**45TH DISTRICT AGRICULTURAL ASSOCIATION  
CALIFORNIA MID-WINTER FAIR & FIESTA  
IMPERIAL, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
Years Ended December 31, 2007 and 2006

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
<b>REVENUE</b>			
State Allocations	312	\$ 124,000	\$ 124,000
Capital Project Reimbursement	319	40,000	-
Other Operating Fund	340	3,472	41,993
Admissions	410	402,823	288,038
Commercial Space	415	63,500	59,975
Concessions	420	360,780	303,960
Exhibits	430	23,498	24,576
Motorized Racing	461.9	-	117,285
Miscellaneous Fair	470	200,613	128,626
Junior Livestock Auction Revenue	476	40,138	40,047
Non-Fair Revenue	480	156,042	118,451
Prior Year Adjustment	490	76,330	35,458
Other Revenue	495	9,936	8,674
<b>Total Revenue</b>		<u><b>1,501,132</b></u>	<u><b>1,291,083</b></u>
<b>EXPENSES</b>			
Administration	500	323,560	307,362
Maintenance and Operations	520	351,334	362,592
Publicity	540	52,321	50,718
Attendance	560	116,328	132,806
Miscellaneous Fair	570	65,112	48,408
Junior Livestock Auction Expense	576	12,847	10,741
Premiums	580	24,541	20,388
Exhibits	630	66,352	65,835
Attractions - Fairtime	660	180,424	234,375
Motorized Racing	660.9	-	111,242
Prior Year Adjustments	800	38,588	(11,708)
Cash Over/Short from Ticket Sales	850	(69)	108
Depreciation Expense	900	31,308	30,443
Capital Expenditures	940	17,520	50,558
<b>Total Expenses</b>		<u><b>1,280,166</b></u>	<u><b>1,413,868</b></u>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		220,966	(122,785)
Resources Available, January 1		595,690	718,475
<b>Resources Available, December 31</b>		<u><b>\$ 816,656</b></u>	<u><b>\$ 595,690</b></u>

**45TH DISTRICT AGRICULTURAL ASSOCIATION  
CALIFORNIA MID-WINTER FAIR & FIESTA  
IMPERIAL, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS**  
Years Ended December 31, 2007 and 2006

	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses	\$ 220,966	\$ (122,785)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(19,807)	6,001
(Increase) Decrease in Inventory	1,348	-
(Increase) Decrease in Deferred Charges	4,268	2,426
Increase (Decrease) in Accounts Payable & Misc. Liabilities	(53,531)	53,097
Increase (Decrease) in Payroll Taxes & Other Liabilities	(30,984)	3,523
Increase (Decrease) in Deferred Income	26,008	(4,455)
Increase (Decrease) in Guarantee Deposits	(14,437)	8,213
Increase (Decrease) in Compensated Absences Liability	17,101	7,366
Total Adjustments	<u>(70,034)</u>	<u>76,171</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>150,932</b></u>	<u><b>(46,614)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Equipment	5,269	34,772
(Increase) Decrease in Leasehold Improvements	<u>87</u>	<u>(889)</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>5,356</b></u>	<u><b>33,883</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
<b>Net Cash Provided (Used) by Financing Activities</b>	<u>-</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>156,288</b>	<b>(12,731)</b>
Cash at Beginning of Year	211,339	224,070
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 367,627</b></u></u>	<u><u><b>\$ 211,339</b></u></u>



**45TH DISTRICT AGRICULTURAL ASSOCIATION  
CALIFORNIA MID-WINTER FAIR & FIESTA  
IMPERIAL, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 45th District Agricultural Association (DAA) was formed on October 5, 1921, for the purpose of sponsoring, managing, and conducting the California Mid-Winter Fair & Fiesta each year in Imperial, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents – The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Equipment and Leasehold Improvements – Construction-in-progress, land, leasehold improvements, and equipment, if any, is acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Leasehold improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

**NOTE 2      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Change Funds	\$ -	\$ (613)
Cash in Bank – Operating	22,753	14,396
Cash in Bank – Premium	-	7,354
Cash in Bank – Payroll	2,263	5,287
Cash in Bank – JLA	36,122	1,181
Cash in Bank – Money Market	156,566	41,506
Cash in Bank - LAIF	<u>149,923</u>	<u>142,228</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 367,627</u></u>	 <u><u>\$ 211,339</u></u>

**NOTE 3      ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable – Trade	\$ 30,975	\$ 17,410
Accounts Receivable – NSF Checks	2,722	-
Allowance for Doubtful Accounts	<u>(7,592)</u>	<u>(11,112)</u>
 Accounts Receivable - Net	 <u><u>\$ 26,105</u></u>	 <u><u>\$ 6,298</u></u>

## NOTE 4

**EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Amounts capitalized for equipment and leasehold improvements at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Equipment	\$ 184,557	\$ 184,557
Less: Accumulated Depreciation	<u>(172,186)</u>	<u>(166,917)</u>
Equipment - Net	<u>\$ 12,371</u>	<u>\$ 17,640</u>
Leasehold Improvements	\$ 2,151,318	\$2,125,366
Less: Accumulated Depreciation	<u>(1,603,207)</u>	<u>(1,577,168)</u>
Leasehold Improvements - Net	<u>\$ 548,111</u>	<u>\$ 548,198</u>

## NOTE 5

**RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the 45th DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are

placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 6      **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**45TH DISTRICT AGRICULTURAL ASSOCIATION  
CALIFORNIA MID-WINTER FAIR & FIESTA  
IMPERIAL, CALIFORNIA**

**REPORT DISTRIBUTION**

<b><u>Number</u></b>	<b><u>Recipient</u></b>
1	President, 45th DAA Board of Directors
1	Chief Executive Officer, 45th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



45TH DISTRICT AGRICULTURAL ASSOCIATION  
CALIFORNIA MID-WINTER FAIR & FIESTA  
IMPERIAL, CALIFORNIA

MANAGEMENT REPORT #08-044

YEAR ENDED DECEMBER 31, 2007

45TH DISTRICT AGRICULTURAL ASSOCIATION  
CALIFORNIA MID-WINTER FAIR & FIESTA  
IMPERIAL, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2007

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AUDIT STAFF

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Audit Chief  
Assistant Audit Chief  
Audit Manager  
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MANAGEMENT REPORT NUMBER  
#08-044



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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Cherisse Alford, President  
Board of Directors  
45th DAA, California Mid-Winter Fair & Fiesta  
200 East Second Street  
Imperial, CA 92251-1815

In planning and performing our audit of the financial statements of the 45th District Agricultural Association (DAA), California Mid-Winter Fair & Fiesta, Imperial, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the California Mid-Winter Fair & Fiesta with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 45th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 45th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 45th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 45th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 45th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 45th DAA and compliance with state laws and regulations, we identified six areas with reportable conditions that are considered weaknesses in the Fair's operations: accounts payable and accrued liabilities, accounting for fixed assets, junior livestock auction, uncashed checks, opportunity purchases, and accounts receivable. We have provided eleven recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 45th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Our office examined the Fair's liability accounts as recorded in the year-end accounting records, and the following accounting errors or omissions were noted:

- a. The Fair made an attempt to, but did not fully accrue all liabilities at year-end. Our office noted unrecorded liabilities of \$2,874 at year-end relating to 2007 expenses that were subsequently paid in 2008. The accrual basis of accounting requires the recognition of expenses within the period incurred. If expenses have been incurred but not yet invoiced, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing the accounting records and preparing the annual Statement of Operations.
- b. Several payroll liability accounts had debit balances. The actual liability of \$1,766 was determined by subsequent payments in 2008, and the liability accounts were adjusted to the actual amount due at year-end. In addition, a total of \$1,525 in late payments and penalties were paid to various government agencies during 2008, which is related to 2007 expenses.
- c. Account #245, Compensated Absences Liability, is understated by \$11,623 at year-end. Our office identified three employees whose leave accrual has not been updated to reflect ten hours of leave earned after three years of state service.

### *Recommendations*

1. *The Fair should continue to accrue liabilities at year-end for all known payables, including estimates of utilities, even though billings have not yet been received.*
2. *The Fair should research and correct any liability that has a debit balance. This usually occurs due to coding errors and causes the financial statements to present erroneous information.*
3. *The Fair should adjust the compensated leave liability and the leave records to properly reflect the liability at the current rate of pay prior to closing the accounting period and preparing the year-end financial statements.*

### ACCOUNTING FOR FIXED ASSETS

The Fair's accounting records for fixed assets were analyzed and the following conditions were identified:

- a. As of December 31, 2007, the property ledger did not agree to the general ledger for Account #193, Equipment. A difference of \$18,318 was due to the Fair posting an audit adjustment as a credit instead of a debit.
- b. The Fair did not capitalize the project cost of \$25,952 for ADA access ramps that were completed and placed in service during 2007 in Account #194, Leasehold

## Management Report #08-044

Imperial, California

Improvements. The asset capitalization criteria established by the Department of Finance (DOF) requires fairs to capitalize property having a value of at least \$5,000 and a useful life of at least one year. In addition, the related accumulated depreciation, Account #194.1, Accumulated Depreciation – Leasehold Improvements, was overstated at year end by \$511. Adjusting journal entries have been proposed to fairly state the Leasehold Improvements in the Fair's financial statements.

- c. Additionally, the Fair did not correctly account for accumulated depreciation related to Account #193, Equipment, and thereby understated its net assets and net resources by \$4,981.

*Recommendations*

4. *The Fair should make the necessary correcting journal entries to ensure the amounts reported for fixed assets within its accounting records are fairly stated. In the future, the Fair should reconcile the general ledger to the property ledger to ensure all fixed asset transactions are properly accounted for prior to closing the accounting records and preparing the year-ending financial reports. As specified in the Fairs and Expositions (F&E) Fixed Asset Manual, the property ledger serves as a subsidiary ledger that contains detailed information regarding all fixed asset amounts capitalized in the general ledger.*
5. *The Fair should follow the asset capitalization criteria established by the DOF and capitalize all property having a value of at least \$5,000 and a useful life of at least one year.*
6. *The Fair should make the necessary journal entries to ensure Account #193.1, Accumulated Depreciation – Equipment, and Account #194.1, Accumulated Depreciation – Leasehold Improvements, are fairly stated in its general ledger and year-end financial statements. In the future, the Fair should review their fixed asset worksheets and related depreciation schedules for accuracy prior to closing their accounting records and preparing the year-end financial statements.*

**JUNIOR LIVESTOCK AUCTION**

A review of the Fair's Junior Livestock Auction (JLA) identified the following deficiencies in JLA reconciliation and operation controls:

- a. The Fair did not reconcile Account #251, Reserve for JLA, to Account #117, JLA-Cash. As a result, these accounts did not agree at year-end. According to the Accounting Procedures Manual (APM), Section 2.37, Auction Account, the balance in the auction account, adjusted for accounts receivable and accounts payable, must equal the related net resources. This is a prior year finding.
- b. As of December 31, 2007, the Fair's JLA is administered by the Junior Livestock Foundation, Farm Credit Services, and RoboBank. Although segregation of duties are clearly explained by Fair staff, the Fair failed to establish a written agreement with the Junior Livestock Foundation, Farm Credit Services, and RoboBank specifying the responsibilities of all parties. The APM, Sections 5.0 Overview and

5.4 Committee-Operated Auction, requires the Fair to develop and implement written procedures and controls over JLA for the purpose of providing financial information to the Board and Committee. This is a prior year finding.

#### *Recommendations*

7. *Prior to closing its accounting records at year-end, the Fair should ensure Account #251, Reserve for JLA, reconciles to the corresponding bank account after it is adjusted for JLA accounts receivable and accounts payable. The Fair should ensure all entries to the general ledger are justified with supporting documentation.*
8. *The Fair should implement written procedures and controls over JLA as required by the APM. This is to avoid any discrepancy that may later arise.*

### **UNCASHED CHECKS**

An audit of the Fair's bank accounts noted that the bank reconciliation for the operating, payroll and premium accounts had several checks totaling \$15,957, \$208 and \$7,505, respectively, that remained uncashed for more than one year. Most bank issued checks are only negotiable for 180 days after the issuance date. Furthermore, the State Administrative Manual that governs District Agricultural Associations allows any checks that remain uncashed over one year to be cancelled and the amount returned to the bank account from which the checks were drawn.

#### *Recommendation*

9. *The Fair should prepare the necessary journal entries to cancel the uncashed checks issued more than one year ago from its operating, payroll and premium bank accounts, respectively. In the future, this procedure should be performed for all accounts prior to closing the Fair's accounting records at year-end.*

### **OPPORTUNITY PURCHASES**

The Fair did not comply with the guidelines in the APM when making an opportunity purchase. The Fair stated they made opportunity purchases throughout the year; however, the Fair did not demonstrate and provide copies of bid information or exemption justification when necessary. Section 10321 of the Public Contract Code (PCC) states local businesses often provide opportunity purchases to local fairs which may be purchased locally at a price equivalent to or less than that available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption justification when necessary.

#### *Recommendation*

10. *The Fair should follow the proper guidelines set forth in the APM and maintain supporting documentation when claiming an opportunity purchase.*

**ACCOUNTS RECEIVABLE**

The Fair wrote off accounts deemed uncollectible at year-end for approximately \$5,560 from Account #131, Accounts Receivable, without prior approval for the discharge from accountability. According to the APM, Section 2.454, to write off a bad debt and remove it from accounts receivable, a discharge from accountability must be submitted and approved by F&E. Therefore, the accounts written off from accounts receivable should remain in accounts receivable until the Fair receives approval from F&E for the discharge from accountability.

Furthermore, the Fair did not increase the allowance for doubtful accounts totaling \$2,032 for accounts deemed uncollectible in 2007. The APM, Section 2.41 states an allowance for doubtful accounts should be recognized in the accounting records when an account is deemed uncollectible. This process presents the Fair's assets more accurately.

*Recommendation*

*11. The Fair should review accounts receivable on a regular basis. In addition, the Fair should follow up on accounts receivable deemed uncollectible. If necessary, the Fair should consider writing off doubtful accounts following the APM and F&E guidelines over discharge of accountability.*

## NON-REPORTABLE CONDITIONS

### ADMISSION REVENUE

The Fair exposed itself to loss by not performing an ending ticket inventory after the fair for both pre-sale and regular admission tickets. A discrepancy of 805, 281, and 332 for adult, child, and senior, respectively, was discovered for pre-sale tickets after our office performed inventory. Had such an inventory been performed, the Fair may have been able to determine the cause for the variance.

#### *Recommendations*

*The Fair should improve its internal controls over admissions revenue by ensuring an inventory is performed for all tickets at the end of the fair to ensure reports and revenue match tickets used in the course of operations.*

### CARNIVAL REVENUE

The Fair could not provide a signed carnival agreement. This agreement goes through 2010 and the Fair must maintain a copy to protect both parties from misunderstandings. F&E approval of this multi-year contract could not be confirmed. The Fair relies solely on daily reports generated by the carnival operator. No review or confirmation of information provided is performed. Pre-sale tickets did not have an inventory performed at the end of the fair, so we could not confirm the number of pre-sale tickets left unsold.

#### *Recommendations*

*The Fair needs to maintain a signed carnival agreement and receive approval from F&E. Sales information, provided by the carnival operator concerning fair time carnival ticket sales, needs to be verified. An inventory is necessary to confirm reported revenue for both regular and pre-sale tickets.*

### CONCESSION REVENUE

Alcohol and non-food concession sales could not be confirmed by independent sources. The contractors do not submit register tapes or proof of deliveries from distributors to the Fair for confirmation of sales. Our office noted the Fair has no signed agreement with its master concessionaire on file. An agreement outlines the responsibility and terms of any understanding between the Fair and the concessionaire.

#### *Recommendations*

*The Fair should maintain a copy of the concessions agreement with the master concessionaire. This contract is considered a public document and should be readily available for audit purposes. In addition, the Fair should ensure concessionaires submit*



*proof of sales for Fair verification. Relying solely on concessionaire generated reports leaves the Fair open to misunderstandings concerning the percentage due from sales.*

## **SPONSORSHIP REVENUE**

Our office noted internal control weaknesses in the Fair's sponsorship procedures. We noted instances where the Fair does not have signed sponsorship agreements between the parties outlining the requirements of all parties involved. Details for in-kind trade are not recorded, and could not be provided. A formal written sponsorship agreement that contains sufficient detail would prevent any misunderstandings from occurring between the two parties.

### *Recommendations*

*Sponsorship agreements must be maintained and signed by both parties clearly stating the details of the agreement. This includes the financial considerations, details of in-kind trade, and the agreement length.*

## **CASH RECEIPTS**

The Fair does not always deposit cash receipts on a timely basis. The State Administrative Manual (SAM) 8032.1 states, "cash will accumulate until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders and warrants." Out of the three months tested, the Fair had two instances of cash and checks exceeding the deposit threshold.

### *Recommendation*

*The Fair should ensure it deposits cash receipts within the timeframes specified in the SAM. The timely deposit of cash and check receipts helps minimize the risk of loss or other misuses of the cash or cash equivalents collected.*

## **STANDARD AGREEMENTS**

A review of the standard agreements controls and procedures identified the following weaknesses:

- a. Six of sixteen agreements tested had no bids associated with them. The Fair was not bidding for services. Agreements with a value of \$5,000 or more need to have a formal bid process applied to them.
- b. The Fair disbursed a \$2,500 advance to a performer. The F&E Contract Manual Chapter 5D states, "a DAA may not make payments prior to work performed." This makes contractors perform their agreements and keeps the Fair from losing funds due to non-performance.
- c. A "List of Nonresident Entertainers" was not submitted to Franchise Tax Board (FTB), reporting which non-resident entertainers earned more than \$1,500. During standard agreement testing, one instance of an out-of-state entertainer not being reported to FTB was discovered.

*Recommendations*

*The Fair should follow the F&E Contract Manual and bid contracts for goods and services over \$5,000 to assure best price is achieved.*

*The Fair should comply with the F&E Contract Manual and stop the practice of paying a contractor before work has been done. This protects the fair from loss if a contractor does not complete an agreement once an advance has been given.*

*The Fair should withhold all non-exempt out-of-state entertainers in accordance with FTB regulations. A fine can be applied to any organization that does not withhold applicable California taxes at the source.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**



#### ACCOUNTS PAYABLE AND ACCURED LIABILITIES

- A. The Fair now has a procedure set in place for all deferred accounts and a log for building rentals for the guaranteed deposit amounts to be returned to renter or used against other accounts, for damages, etc.
- B. The Fair will continue to accrue liabilities at year-end for all known payables, including estimates of utilities.
- C. After journal entries given by audit office, the compensated leave liability has been adjusted to correct amounts and will be properly adjusted at year end every year.

#### ACCOUNTING FOR FIXED ASSETS

- A. The fair made the necessary correcting journal entries that were given by the audit office to ensure the amounts for fixed assets within its accounting records are fairly stated. The fair is going to take the proper steps to make sure the general ledger reconciles to the property ledger by using our FAS accounting program.
- B. The fair will follow the asset capitalization criteria established by the DOF and capitalize all property having a value of at least \$5,000 and a useful life of at least one year.
- C. With the assistance of the audit office, the fair made the necessary journal entries to ensure account #193.1 Accumulated Depreciation – Equipment, and Account #194.1, Accumulated Depreciation – Leasehold Improvements are fairly stated in the General Ledger. The fair will review their fixed asset worksheets and related depreciation schedules for accuracy prior to closing our accounting records and preparing the year-end financial statements.

#### JUNIOR LIVESTOCK AUCTION

- A. The fair is in the process of analyzing the JLA Reserve and the JLA cash account. The JLA Reserve and cash account have not been in agreement for several years and the fair is still researching the documents in effort to make the reserve and cash account match.
- B. The fair board is now working on a written agreement with Rabobank and Farm Credit to implement written procedures and controls over JLA as required by APM.

#### UNCASHED CHECKS

- A. Journal entries have been made per auditors request for all uncashed checks for all accounts. The fair will now continue to make that part of the fairs procedures before closing the fairs records at year end.

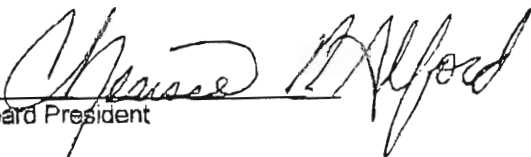
July 30, 2009

**OPPORTUNITY PURCHASES**

- A. For 2009, the fair will follow the proper guidelines set forth in APM and maintain supporting documentation when claiming an opportunity purchase.

**ACCOUNTS RECEIVABLE**

- A. The fair will review accounts receivable on a monthly basis and will continue to mail out monthly statements. When an account is deemed uncollectible, the fair will follow the APM and F&E guidelines on the discharge of accountability.

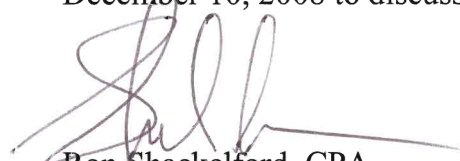
  
Board President

### **CDDA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 45th DAA, California Mid-Winter Fair & Fiesta, for its review and response. We have reviewed the response and it adequately addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between December 1, 2008 and December 10, 2008. My staff met with management on December 10, 2008 to discuss the findings and recommendations, as well as other issues.



For Ron Shackelford, CPA  
Chief, Audit Office

December 10, 2008

**REPORT DISTRIBUTION**

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1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office